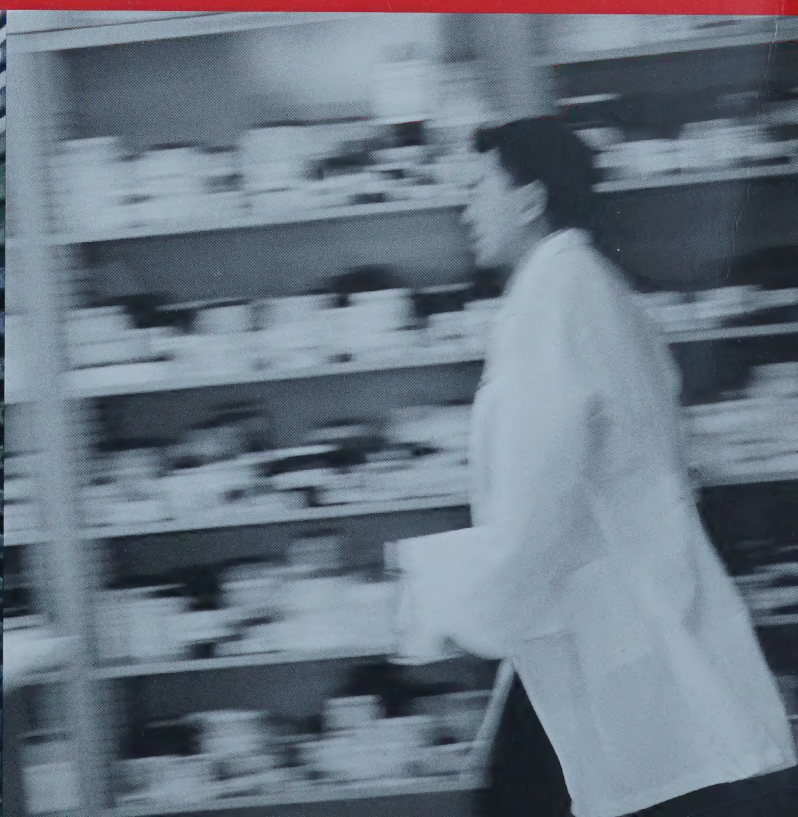




SYSTEMS XCELLENCE INC.
DECEMBER 2003 ANNUAL REPORT

TECHNOLOGY THAT WO**R**x



SYSTEMS XCELLENCE INC. (SXC) IS A LEADING PROVIDER OF PHARMACY DISPENSING AND BENEFITS PROCESSING SOLUTIONS TO THE PHARMACEUTICAL BENEFITS INDUSTRY. Offering an end-to-end pharmacy benefits management suite, our solutions address the needs of virtually every participant within today's pharmacy benefit delivery system. Our customers include many of the foremost organizations in the pharmaceutical supply chain, such as managed care organizations (MCOs), pharmacy benefit managers (PBMs), retail pharmacy chains and mail order pharmacies.

Combining web-enabled, real-time transaction processing technologies with business consulting expertise in the healthcare benefits and pharmacy industry, our comprehensive product and service offerings are designed to maximize efficiency in pharmacy benefit and pharmacy operations management.

Headquartered in Milton, Ontario, SXC employs more than 200 professionals in its offices in Milton, Ontario; Lombard, Illinois; Scottsdale, Arizona and Victoria, British Columbia. The company's shares are traded on the Toronto Stock Exchange under the symbol SXC. SXC can be found on the Internet at www.sxc.com.

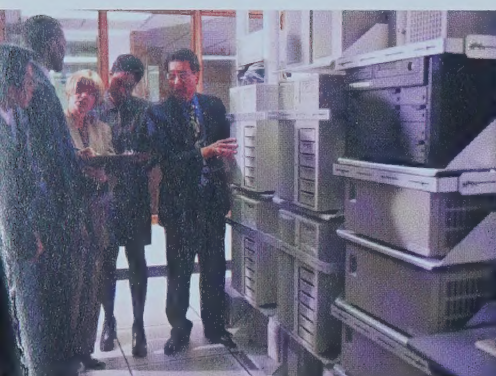


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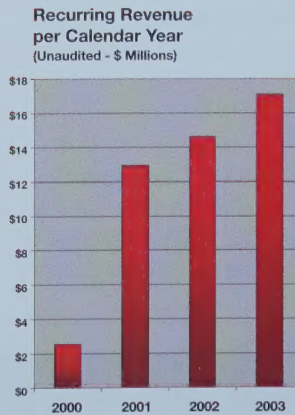
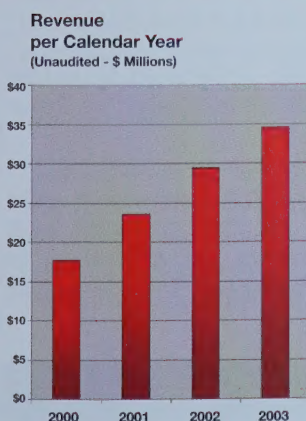
OPERATIONAL HIGHLIGHTS¹

- Record revenue of \$34.6 million, a 17% increase over calendar year 2002;
- Net income of \$3.9 million, or \$0.09 per share, compared to net income of \$0.2 million, or \$0.01 per share, in calendar year 2002;
- New contracts and partnerships that included:
 - \$6.7 million, three-year application service provider (ASP) contract with a mid-size, U.S.-based PBM;
 - \$2.5 million, four-year renewal of a hosted services agreement;
 - \$1.5 million, four-year ASP contract with a U.S.-based PBM; and
 - Strategic partnership with Misys Healthcare Systems to enhance sales efforts of RxEXPRESS® for Windows® to outpatient hospital pharmacies.
- \$3.4 million private placement (bought deal) providing SXC with proceeds for working capital, potential acquisitions or for future debt repayment purposes;
- Over 100 million transactions processed - representing a 36% increase over calendar year 2002;
- Backlog of \$49.4 million, consisting primarily of recurring revenue sources, compared to \$47.5 million in the prior period; and
- The launch of InformedRx, a suite of à la carte pharmacy benefits services for the managed-care marketplace, including a 40,000 store national pharmacy network.

FINANCIAL HIGHLIGHTS¹

In Millions, except per share amount		2003					2002				
			Q4	Q3	Q2	Q1		Q4	Q3	Q2	Q1
Software License		\$9.9	\$2.7	\$2.7	\$2.3	\$2.1	\$3.3	\$1.3	\$0.5	\$0.5	\$1.1
Professional Services		7.6	2.0	1.5	1.6	2.5	11.6	2.5	3.2	3.3	2.6
Maintenance		8.0	1.9	2.0	2.0	2.1	8.2	2.3	2.1	1.9	1.9
ASP / Switching		9.1	2.7	2.5	2.1	1.8	6.4	1.8	1.6	1.5	1.5
Total Revenue		\$34.6	\$9.3	\$8.7	\$8.1	\$8.6	\$29.5	\$7.9	\$7.3	\$7.1	\$7.1
Recurring Revenue		\$17.1	4.6	4.5	4.1	3.9	\$14.6	4.1	3.7	3.4	3.4
Gross Profit		\$20.2	5.7	5.2	4.6	4.7	\$16.2	4.1	3.9	4.0	4.3
	%	58%	61%	60%	57%	54%	55%	52%	52%	56%	60%
EBITDA		\$7.2	\$1.8	\$1.7	\$1.6	\$2.1	\$5.7	1.8	1.4	1.2	1.4
	%	21%	19%	20%	19%	25%	19%	22%	18%	16%	20%
Income (loss) before goodwill amortization		\$3.9	1.0	1.0	0.9	1.0	\$1.4	0.6	0.3	0.1	0.4
	%	11%	11%	12%	11%	12%	5%	7%	4%	2%	5%
Net Income (loss)		\$3.9	\$1.0	\$1.0	\$0.9	\$1.0	\$0.2	\$0.6	\$0.3	\$0.1	(\$0.8)
	%	11%	11%	12%	11%	12%	1%	7%	4%	2%	-11%
Earnings per Share		\$0.09	\$0.02	\$0.02	\$0.02	\$0.03	\$0.01	\$0.02	\$0.01	\$0.00	(\$0.02)
Working Capital		\$14.2					\$6.3				
Backlog (year-end)		\$49.4					\$47.5				
Common Shares		46.4					39.5				
Annual ASP Transactions		112.7					82.7				

¹ In U.S. dollars, reflecting unaudited, calendar year results.



LETTER TO SHAREHOLDERS

GORDON S. GLENN
President & Chief Executive Officer



Dear Shareholder:

Financial results from the year indicate that we continue to execute on our growth strategy. Our primary objective to grow the business is to increase the volume - and number of customers - in our transaction processing business, thus building our base of recurring revenue. To this end we had a number of successes in 2003. We earned contract wins totaling \$10.7 million, launched two product/service offerings that expanded our market reach and added strength to our balance sheet to support our growth initiatives.

The year ended December 31, 2003, represents the ten-month period from March 1, 2003 to December 31, 2003. This stub period is a result of SXC changing its year-end from February 28 to December 31. In addition, we have now implemented a change in our reporting currency to U.S. dollars beginning with the ten-month period ended December 31, 2003. Since SXC generates the vast majority of its revenues and expenses in the U.S., we believe that a change to U.S. reporting will further enhance shareholder understanding of our reported results. The adoption of a December 31 year-end should further assist in these pursuits.

Financial Review

Revenue for the ten-month period ended December 31, 2003 was \$28.7 million compared to \$30.6 million for the twelve-month period ended February 28, 2003. Despite an abbreviated fiscal year, net income for the ten-month period

rose 78% to \$3.1 million, or \$0.07 per share, compared to \$1.8 million, or \$0.04 per share, for the prior twelve-month period.

Revenue of a recurring nature increased to 51% of total revenue, versus 49% of total revenue last fiscal year. In the fourth quarter of calendar year 2003 we processed ASP/switching transactions at an annualized rate of more than 100 million transactions per year. This represents a 36% increase over the annualized number in the fourth quarter of calendar year 2002. This increase in transaction processing business is consistent with our strategy to grow the company by adding new sources of recurring revenue.

In June, we closed a \$3.4 million bought-deal common share offering underwritten by a syndicate of four leading investment brokerages. This financing improved our balance sheet, expanded our awareness within the investment community and provided capital that can be deployed in support of our growth initiatives. At December 31, 2003, SXC had \$13.5 million in cash and cash equivalents compared to \$6.8 million at February 28, 2003.

Operations Review

In 2003 two key initiatives were undertaken to further expand the reach of our products and to drive activity in our transaction processing business.

In March we launched InformedRx, a suite of à la carte pharmacy benefits services for the managed care marketplace. InformedRx provides an alternative to traditional pharmacy benefit management for managed

LETTER TO SHAREHOLDERS

care customers, governments and self-insured employers. The InformedRx business model is pharmacy friendly and independent of potential conflicts with pharmaceutical manufacturers. This service offering has enabled SXC to target a broader number of payer organizations, and we have recently completed implementations for three new customers. We are excited with the prospects for InformedRx and expect these recent wins will lead to larger customer orders as the offering gains traction in the marketplace.

To enhance our position at the retail, mail-order and out-patient hospital pharmacy level, during 2003 we increased sales and marketing activity for RxEXPRESS® for Windows®. RxEXPRESS® addresses the increasing demand by retail pharmacies for modern, work-flow based pharmacy management and dispensing systems. Our solution helps process the escalating dispensing workload, guard against medication errors, manage inventory, interact with the supply chain and facilitate 3rd party insurance reimbursement. To further penetrate this market, in October, we announced an agreement with Misys Healthcare Systems to help generate greater awareness and interest in RxEXPRESS® at the hospital pharmacy level.

Outlook

As mentioned, our primary objective is to continue building our base of recurring revenue by increasing the number of transactions in our benefit processing business, as well as the maintenance streams generated by our provider products. Recent events within our industry have served to reinforce the direction of our growth plans.

The escalating use and cost of prescription drugs in the U.S., continues to drive our market opportunity and impact our growth strategies. With nearly half of all Americans taking a prescription drug each day, the dollar value spent on prescription drugs has jumped from \$82 billion in 1996, to \$194 billion in 2002 - a 15% annual compounded increase. A recent U.S. government study predicted that this figure could double by 2011. Furthermore, studies indicate that in 2002, the prices of the 50 most commonly prescribed drugs to seniors rose nearly 3.5 times faster than inflation. For those on fixed incomes with no drug coverage, these price increases are preventing many from getting their required treatments.

Responding to the lack of accessible drug therapy for the elderly and other uninsured or underinsured patients, the U.S. government recently announced legislation to provide prescription drug coverage under the Medicare program. Those in charge of administering the program - pharmacy

benefit managers and government agencies - are going to be clearly focused on managing the costs associated with delivering the prescriptions to their beneficiaries. In response to the anticipated activity at the government level, one of our objectives is to penetrate the government agency market for pharmacy benefits administration at either the federal or state level.

In this environment of higher drug costs, where there is also a greater emphasis on cost control, we look to capitalize with a growth strategy that is a natural evolution from our objectives of the past year. The fundamental components of the strategy are:

- Expand the customer base of our core transaction processing offerings by leveraging our data center with new and current applications;
- Increase the customer base for InformedRx, using recent contract wins as a platform to target larger customers;
- Build our provider retail pharmacy and mail order business through the ongoing deployment of RxEXPRESS® for Windows®; and
- Pursue acquisition and partnership opportunities.

In closing, we are excited about our prospects for the future and believe that our growth strategies are the right ones and that we have the people, products and financial resources to achieve our objectives. Events in our marketplace, such as Medicare legislation, rising demand for prescription drugs, higher drug prices and the advanced capabilities of technology to deliver efficiencies and cost-savings to healthcare benefit providers, further supports our strategy.

On behalf of the team at SXC, we thank you for your continued support and we look forward to reporting to you in the coming year.

Sincerely,



Gordon S. Glenn
President & Chief Executive Officer

MARKET OVERVIEW

With nearly half of all Americans taking prescription drugs daily, the escalating cost of these medications remains a serious and pressing issue for politicians, managed care providers and healthcare recipients. The implications for the public are that drug prices are consuming a greater portion of disposable income and in more extreme cases, these rising costs are forcing people to seek medications from foreign jurisdictions, or in some situations, to forego treatment altogether.

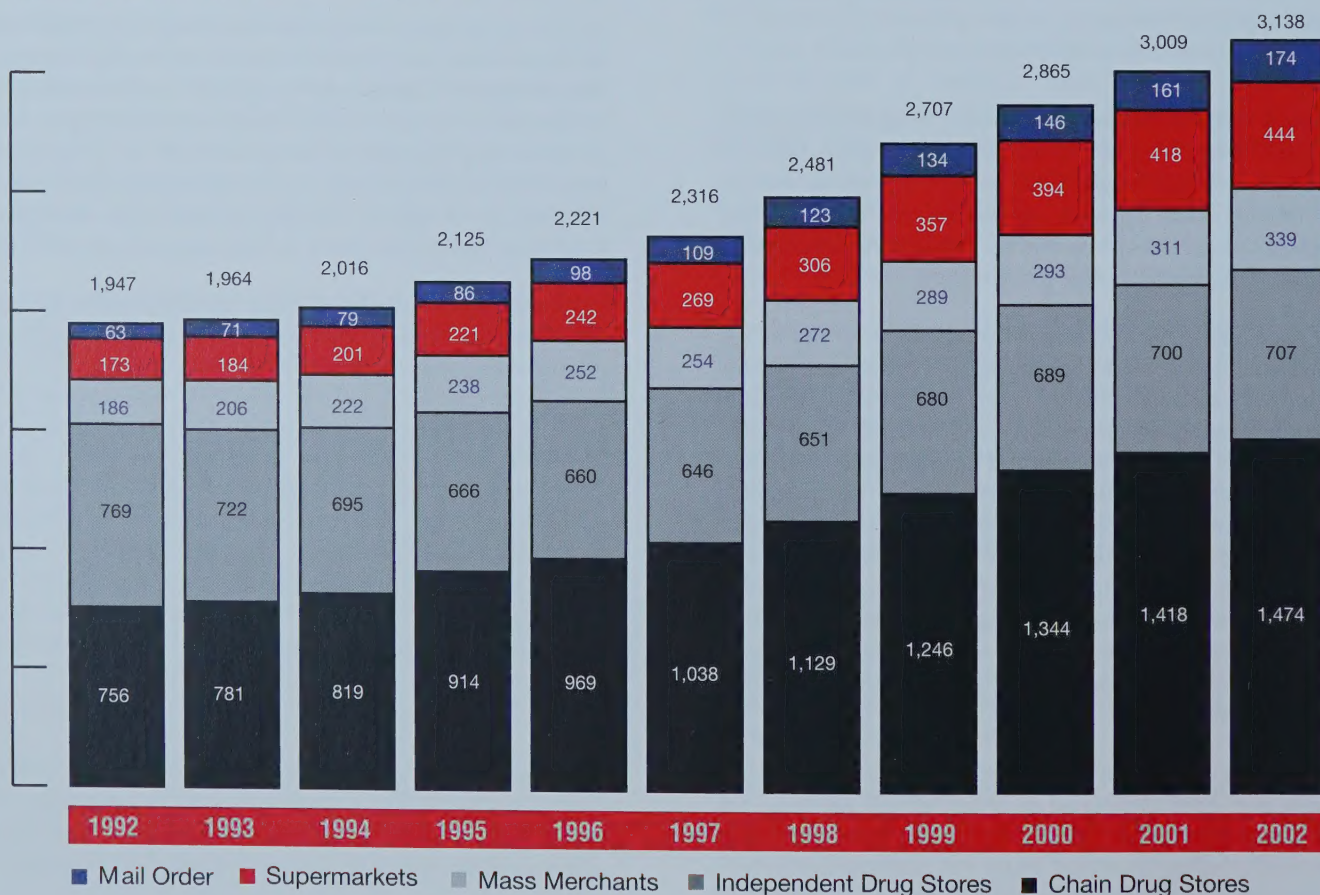
In general, higher drug prices are attributed to escalating expenses related to the development and distribution of increasingly complex medications. Nevertheless, despite the out-of-pocket impact that drug prices are having on consumers, the number of prescriptions being written continues to climb steadily. Driven primarily by an aging population, the introduction of "lifestyle" drugs, direct-to-

consumer advertising and recently passed legislation to provide prescription drug coverage for Medicare recipients, this number is expected to rise even further in the coming years.

With more prescriptions being written and the cost of the underlying drugs expected to remain high, managed care organizations (MCOs) and pharmacy benefit managers (PBMs) are actively seeking more cost effective means for sourcing, transacting and managing prescription drug benefits. SXC's solutions are ideally suited to address these challenges. In particular, SXC's technology enables small and mid-sized MCOs and PBMs to realize levels of operational efficiency and formulary control that historically have been available to only the largest healthcare organizations. In addition, these solutions are available on either a licensed software, outsourced or ASP basis.

PRESCRIPTIONS, BY TYPE OF STORE, 1992-2002 (IN MILLIONS)

Source: IMS HEALTH and NACDS Economics Department.





**“THE COLLECTIVE RETAIL VALUE OF
PRESCRIPTIONS FILLED IN 2003
INCREASED 11.5% - FROM \$194 BILLION
TO \$216 BILLION - OVER 2002”**

(Source : IMS Health)

SOLUTIONS OVERVIEW

Health plan sponsors including managed care organizations (MCOs), self-insured employer groups, and government agencies are seeking alternatives to the traditional outsourcing of their pharmacy benefits management. Many are choosing to develop and manage their own drug formularies, and enter into more direct relationships with retail pharmacies, manufacturers and clinical programs, rather than deal directly with a traditional pharmacy benefit managers (PBMs). Thus they are seeking business and information technology partners to assist in managing their programs.

Payers: (MCOs, Government, Employers)

Utilizing SXC's suite of solutions, MCOs, Blue Cross and Blue Shield plans, and other payers enjoy a number of competitive advantages. Key amongst these is control over their pharmacy benefits, clinical programs including rebate management, and their immediate access to their data.

Many payers are looking for better ways to control drug spend while providing their members with a higher quality pharmacy benefit. Issues that they are faced with include: the added cost of employing a third party organization to manage benefit transactions; the high cost of brand drugs versus generics; the desire to maximize rebates from drug manufacturers through direct relationships; and speed to market to implement changes in benefit design.

SXC's longstanding experience and reputation as a premier technology provider of claims processing solutions to the managed care industry and our successful launch of the InformedRx à la carte services, is a natural fit for providing these other value-added services.

Payers: (PBMs)

Our solutions provide both large and small PBMs and other e-healthcare companies with a fully functional on-line transaction processing system designed for maximum control and flexibility.

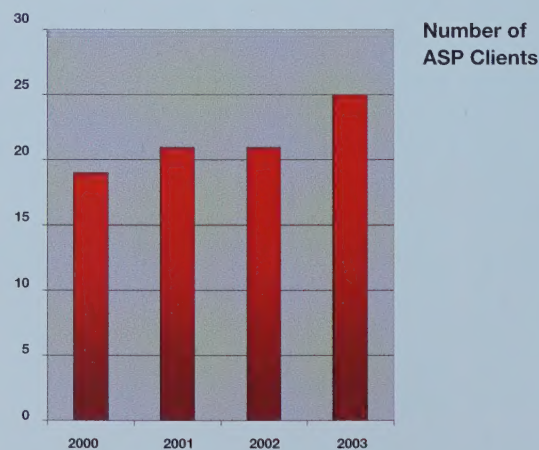
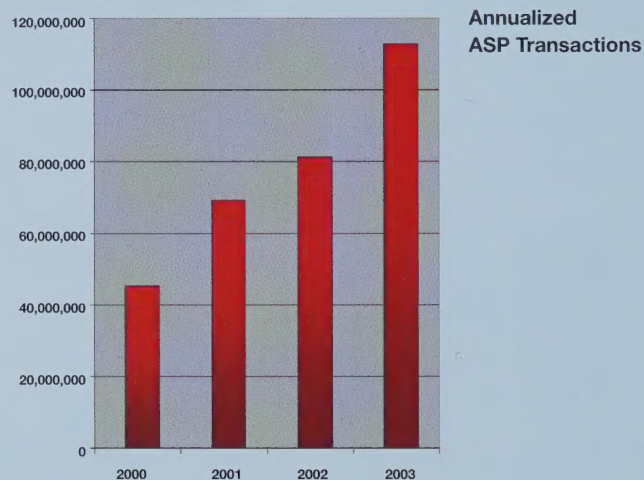
Information analysis and decision support tools provide the information when and where it is needed. Instant on-line adjudication, trouble-free claims management, rebate-handling as well as cost-effective review, payment and billing support are delivered through SXC's software solutions, implementation services, development and integration services.

Nearly one half of all prescriptions in the United States are processed by PBMs. However, the industry is not without issue. The cost of drugs continues to escalate at a rapid

rate and legislative requirements will continue to drive change within the marketplace. SXC provides a solid foundation for our PBM clients with a suite of software (RxCLAIM®, RxTRACK®, RxMAX®, RxPORTAL™) and consulting services that enable them to address many of the changes taking place in the pharmacy benefits management arena.

ASP Statistics

The charts depicted below are testament to the longevity and scalability of SXC's solutions. The organic growth of our existing clients, along with the signing of new business by SXC, has contributed to the overall success of our ASP data center.



Providers: (Retail Pharmacy & Mail-Order / Internet Pharmacy)

Whether the organization is a retail chain, independent or mail order pharmacy, or located within a hospital or other healthcare center, SXC has a comprehensive suite of software solutions to meet the need for electronic communication and commerce between retail outlets, patients, doctors, drug companies, and all participants in the pharmaceutical supply chain.

Patient-centric databases ensure the best possible care, while business management tools help achieve the highest levels of efficiency. RxEXPRESS® was developed with a system architecture that is best suited for the rigors of comprehensive prescription fulfillment. The speed, system reliability, central controls, and ease of use with this application are important factors for pharmacists to consider when selecting a pharmacy management system.

While prescription volumes are expected to continue to grow at a rapid rate, the number of pharmacy practitioners will rise only fractionally. RxEXPRESS® for Windows® is designed to help pharmacies operate more efficiently in this environment. A work-to-do-queue and automation interfaces help pharmacists and their technicians manage workflow and leverages proven technology.

SXC's Hosted Services

In addition to offering software solutions to clients that wish to run our products in-house, SXC offers a comprehensive data center and fully-developed Business Continuity Plan to those clients who wish to have SXC manage the process for them. SXC maintains two fully-functional data centers, a primary data center available 24x7 and located in our US headquarters just outside of Chicago, Illinois, as well as a backup data center located in our Scottsdale, Arizona facility.

Our Business Continuity Plan provides for the continuation of our normal service offerings, even in the event of a catastrophic loss of one of our processing centers due to a natural disaster, calamity, malfunction, or other serious condition. This includes redundant networking, which encompasses our telecommunications between our clients as well as the national switches to ensure that point of sale adjudication will not be interrupted.

While other transaction processors have chosen to provide disaster recovery services through third-parties, SXC has assumed this role directly to optimize our client response capability.



**“SXC OFFERS A COMPREHENSIVE
DATA CENTER
AND A FULLY-DEVELOPED
BUSINESS CONTINUITY PLAN”**



GROWTH STRATEGY

Objective: Increase recurring revenue in provider and payer markets

- Expand our addressable payer market presence with new services through our InformedRx offering;
- Increase our provider presence through new releases of our RxEXPRESS® out-patient pharmacy workflow system to address the pent up demand for improved functionality and technology solutions;
- Leverage our existing customer base with new applications offered both on a software license and ASP basis; and
- Explore growth opportunities via strategic alliances, mergers and/or acquisitions.

InformedRx Strategy

In fiscal 2004, SXC expanded its addressable market opportunity from \$2.5 billion to over \$4.0 billion by beginning to offer health plan sponsors a wider variety of à la carte pharmacy benefit administrative services. These services are being offered under a business model that features effective management of drug spend at more transparent pricing than what is generally available in the marketplace today. This approach leverages SXC's managed care customer base, industry leading technology and robust processing infrastructure.

InformedRx provides health plans, employer groups and government agencies with a menu of customizable products and services that will allow them to maximize their control, flexibility and ROI in providing prescription benefits for their members. Service features include clarity with respect to manufacturer rebates, customer control over their benefit plans and formularies, and a focus on member/patient education and choice.

Included in InformedRx current and future offerings are a wide range of services tailored to specific customer needs:

- Benefit plan design, management & claims adjudication;
- Specialized reporting and decision support services;
- Retail pharmacy network reimbursement contracts;
- Formulary management and clinical services;
- Pharmaceutical manufacturer rebate contracting support; and
- Disease management and related clinical programs.

RxEXPRESS Strategy

The continued increase in volume of prescriptions that are written and dispensed annually, coupled with the shortage

of registered pharmacists in the United States, has caused the pharmacy fulfillment industry to look for efficiencies in their pharmacy management practice. There is an opportunity in the market to replace legacy pharmacy dispensing systems with state-of-the-art practice management systems that incorporate workflow management, and automation interfaces. According to IMS Health, mail service pharmacies have and will continue to grow their share of the prescription drug market, with scripts increasing from 4.2% of market share in 1999 to 5.9% of market share in 2003.

Another opportunity for SXC to further penetrate this market is to leverage RxEXPRESS® with our InformedRx suite of services.

New Applications Strategy

SXC's development and launch of our web-based initiative, RxPORTAL™, demonstrates the success of the company's strategy of up selling new products and services to its existing client base. The first phase of the RxPORTAL™ offering is primarily patient focused and allows our clients to keep their membership informed of their benefits, as well as offering secure access to prescription drug history through

"INFORMEDRX LEVERAGES SXC'S MANAGED CARE CUSTOMER BASE, INDUSTRY LEADING TECHNOLOGY AND ROBUST PROCESSING INFRASTRUCTURE."

the Internet. Future enhancements of this application will include client or customer focused initiatives as well as provider (pharmacy and physician) oriented options. RxPORTAL™ can be easily customized to reflect the brand image of the clients using this service.

Acquisitions Strategy

While SXC has been able to offer almost all of its products and services by internally developing and marketing its own solutions, there will be situations where the ROI for purchasing established offerings and/or capabilities may be even greater. As such, SXC will continue to explore opportunities whereby the company may benefit from the expertise developed by third-parties on either the payer or provider side of our business.



**“SXC OFFERS HEALTH PLAN SPONSORS
A WIDE VARIETY OF
À LA CARTE PHARMACY BENEFIT
ADMINISTRATIVE SERVICES”**

SXC MANAGEMENT

POWERED BY OUR PEOPLE

IDEAS, INGENUITY AND EXECUTION ARE THE FOUNDING PRINCIPLES BEHIND OUR ABILITY TO RAPIDLY RESPOND TO CHANGES IN CUSTOMER DEMAND AND TO ENSURE THAT WE REMAIN A LEADER AMONG HEALTHCARE INFORMATION TECHNOLOGY PROVIDERS.

Our team is singularly focused on increasing the efficacy, safety and cost effectiveness of drug therapy, through the deployment of a point-of-care transaction processing network seamlessly linking all participants in the pharmacy benefit industry.



From left to right | John Romza | Jeff Jensen | Irwin Studen | Mike Bennof | Gordon S. Glenn

MANAGEMENT'S DISCUSSION & ANALYSIS

(All amounts in U.S. dollars, unless otherwise specified)

Overview

Systems Xcellence Inc. (or "the Company") is a leading provider of healthcare information technology solutions to the pharmaceutical supply chain in the United States. The Company's product offerings include a wide range of application service provider (ASP) solutions, standardized and customized software applications, and professional services to payers and providers of healthcare services. Payers of pharmacy healthcare services include managed care organizations, health insurance companies, and intermediaries such as pharmacy benefit management organizations (PBMs). Providers of pharmacy healthcare services include primarily independent and regional retail and mail-order pharmacy chains. The Company's products and services empower these organizations to more effectively manage their costs and improve the efficiency of their operations.

Overall Performance

During the ten-month period ending December 31, 2003 ("fiscal 2004"), we continued to strengthen the Company's financial position and growth prospects in a number of key areas.

First, we improved our working capital position from \$6.3 million to \$14.1 million, between February 28, 2003 and December 31, 2003, primarily through cash generated from operations and an underwritten private placement of approximately 3.9 million common shares, resulting in net proceeds of approximately \$3.4 million.

Second, comparing the twelve-months ended December 31, 2003 ("Calendar 2003") to the twelve-months ended December 31, 2002 ("Calendar 2002") unaudited results following our change in year-end to calendar-based reporting, we increased revenue by \$5.1 million and gross margin as a percentage of sales by 3.3%. Recurring revenue increased by 17% to \$17.1 million from \$14.6 million. Through our ASP/switching revenue, we continue to benefit from the growth in pharmaceutical drug use in the United States, which has grown 10-15% annually for the last several years. In addition to benefitting from this inherent industry growth, we continue our focus on increasing the transaction processing segment of our recurring revenue base by adding new transaction processing clients to our existing managed care customer base. The capital investment we made in fiscal 2004 and expect to make in calendar 2004 to our data center operations should position us for 30%+ growth in transactions processing revenue.

MANAGEMENT'S DISCUSSION & ANALYSIS

SYSTEMS XCELLENCE INC.

(All amounts in U.S. dollars, unless otherwise specified)

Third, during the year we launched our InformedRx pharmacy benefit administrative service to enhance our claims processing offering to managed care organizations. InformedRx enables customers to receive the benefit of a number of value-added services through the company's established data centre, at more transparent pricing than the fees charged by traditional pharmacy benefit managers. During late fiscal 2004, we were awarded three contracts utilizing the InformedRx service, which went live on the company's data center in the first quarter of Calendar 2004. Although these contracts collectively are not yet financially material to the Company, they represent a solid reference base for other prospective customers interested in our 40,000-member pharmacy network and are a new source of incremental recurring revenue.

Fourth, for the provider marketplace we are continuing development and rollout of our next generation pharmacy workflow system, RxEXPRESS® for Windows®, which was initially released in fiscal 2003. While initial sales of the product have been to independents, small pharmacy chains and certain outpatient clinics, the primary target customers are those interested in high volume mail-order systems, including managed care organizations that run outpatient pharmacies. We are in the process of identifying selling opportunities and believe that the feature-rich mail-order functionality of the legacy RxEXPRESS® product should continue to provide us with a competitive selling advantage for the Windows® product. We also expect to continue to invest in development and support resources as we expand the system's features and functionality.

Lastly, in the corporate development area we continue to explore acquisition opportunities that could enhance our payer and/or provider offerings. We are targeting opportunities in the \$5.0-\$15.0 million revenue range that would be accretive to earnings within a relatively short period of time following the closing of an acquisition.

As we continue to transition our Payer offerings of the Company to a more transaction-based revenue model, we expect to complete certain customized systems integration and consulting projects during the first half of Calendar 2004. Should the company not be able to substantively replace this revenue by other revenue sources, or through acquisition, this would likely have a material adverse impact on software license and services revenue and the Company's overall financial results.

Results of Operations

The discussion and analysis that follows relates to the results of operations of the Company and should be read in conjunction with the consolidated financial statements and accompanying notes for the ten-month period ended December 31, 2003 ("fiscal 2004") and the twelve-month period ended February 28, 2003 ("fiscal 2003").

On October 14, 2003, the Board of Directors of the Company approved a change of the Company's year-end from February 29, 2004 to December 31, 2003. All comparative figures below, unless otherwise noted, are comparing the ten-month period ended December 31, 2003 to the twelve-month period ended February 28, 2003. Thus, decreases, in some revenue and expense dollar amounts, can be expected due to the difference in the number of months in each time period. None of the amounts presented, unless otherwise stated, are annualized.

Effective December 1, 2003, the Company changed its reporting currency from the Canadian dollar to the U.S. dollar. The financial statements, including comparative information, related footnotes, and the following management discussion & analysis, unless otherwise stated, are expressed in U.S. dollars.

For the Ten-Month Period Ended December 31, 2003 compared to the Twelve-Month Period Ended February 28, 2003

Revenue

Consolidated revenue decreased \$1.9 million or 6.3% to \$28.7 million from \$30.6 million in fiscal 2003. This decrease consists of a \$4.6 million increase in software license revenue, a \$1.3 million increase in ASP/switching revenue, a \$6.2 million decrease in integration and consulting services revenue, and a \$1.6 million decrease in maintenance revenue.

The increase in software license revenue is largely the result of work performed for one customer under a software license and maintenance contract. The increase in ASP/switching revenue was a result of continued growth in the transaction processing customer base. The decrease in consulting revenue is primarily the result of consulting work performed for one customer in fiscal 2003 that was completed in early fiscal 2004. The decrease in maintenance and support revenue is primarily a result of comparing 10 months of financial results in fiscal 2004 to 12 months of results in fiscal 2003.

MANAGEMENT'S DISCUSSION & ANALYSIS

SYSTEMS XCELLENCE INC.

(All amounts in U.S. dollars, unless otherwise specified)

In fiscal 2004, revenue of a recurring nature, consisting of ASP/switching revenue and maintenance revenue, was \$14.5 million or 51% of consolidated revenue, compared to \$14.9 million or 49% of consolidated revenue in fiscal 2003. As a percentage of total revenue, recurring revenue increased even though the dollar amount decreased by \$0.4 million. The decreased dollar amount is primarily a result of comparing 10 months of financial results in fiscal 2004 to 12 months of results in fiscal 2003.

Gross Profit

Gross profit for fiscal 2004 was 59.3%, compared to 53.7% in the prior fiscal year. This increase in gross profit margin was primarily a result of having leveraged increased transactional processing activity in the Company's data center and on improved margins on certain license-related contracts recognized on a percentage of completion basis.

Product Development Costs

Product development costs in fiscal 2004 were \$5.5 million, representing 19.3% of revenue, compared to \$3.5 million or 11.6% of revenue in fiscal 2003. The increased product development costs on a percentage-of-revenue-basis were largely a result of the redeployment of resources that were previously engaged on customer-specific consulting activities to other development projects. The increase in product development cost dollars is primarily related to increased hiring and consulting resources for the RxEXPRESS® for Windows® product suite.

Selling, General and Administration Costs

Selling, general and administrative costs in fiscal 2004 were \$6.0 million or 20.7% of revenue, compared to \$6.6 million or 21.6% of revenue for fiscal 2003. The decrease as a percentage-of-revenue was primarily a result of the continued focus on cost control and improving operational efficiencies. The decreased dollar amount is primarily a result of comparing only 10 months of financial results in fiscal 2004 to 12 months of results in fiscal 2003.

Interest Income and Expense

Interest income increased from \$0.05 million in fiscal 2003 to \$0.09 million in fiscal 2004, primarily due to increased average cash balances available for investment. Interest expense decreased from \$1.0 million in fiscal 2003 to \$0.8 million in fiscal 2004. This decreased dollar amount was primarily a result of comparing 10 months of financial results in fiscal 2004 to 12 months of results in fiscal 2003.

Depreciation and Amortization

Depreciation and amortization expense for fiscal 2004 was \$1.5 million compared to \$3.2 million in fiscal 2003. This \$1.7 million decrease is largely the result of a \$0.7 million reduction in amortization of capitalized product development costs, which were fully amortized in fiscal 2003, and \$0.8 million reduction in depreciation expense resulting from assets written-off in the prior period and reduced capital asset purchases in the current period.

Tax Provision

For fiscal 2004 and 2003, the Company's provision for taxes was \$0.1 million. These amounts are based on federal alternative minimum tax and income tax requirements in certain states in the United States, where the Company currently does business and would not otherwise be able to utilize its loss carry forwards.

Net Income

For fiscal 2004 the Company reported net income of \$3.1 million or \$0.07 per share, compared to net income of \$1.8 million or \$0.04 per share for fiscal 2003. The \$1.3 million improvement in net income, despite comparing only 10 months to 12 months, is primarily due to improved gross profit, reduced interest expense and a reduction in depreciation and amortization expense.

Supplemental Financial Information - Calendar Year Basis (Unaudited)

To assist investors in assessing past and future financial performance on a calendar-quarterly basis, presented below are the Company's U.S. denominated calendar-based consolidated Statements of Operations (Unaudited) for the twelve-months ended December 31, 2002 ("Calendar 2002") and 12-months ended December 31, 2003 ("Calendar 2003"). (See Schedule 1).

Revenue

Consolidated revenue increased \$5.1 million or 17.4% in Calendar 2003 to \$34.6 million from \$29.5 million in Calendar 2002. This increase was primarily the result of increased transaction processing revenue from the Company's ASP/switching product line and increased license revenue, largely the result of work performed for one customer under a licensed software and maintenance contract.

MANAGEMENT'S DISCUSSION & ANALYSIS

SYSTEMS XCELLENCE INC.

(All amounts in U.S. dollars, unless otherwise specified)

Gross Profit

Gross profit for Calendar 2003 was 58.4%, compared to 55.0% in the prior calendar year. This increase in gross profit margin was primarily a result of having leveraged increased transactional processing activity in the Company's data center and on improved margins on certain license-related contracts recognized on a percentage of completion basis.

Product Development Costs

Product development costs in Calendar 2003 were \$6.1 million, representing 17.5% of revenue, compared to \$3.7 million or 12.5% of revenue in Calendar 2002. The increased product development costs on a percentage-of-revenue-basis were largely a result of the redeployment of resources that were previously engaged on customer-specific consulting activities to other development projects. The increase in product development cost dollars is primarily related to increased hiring and consulting resources for the RxEXPRESS® for Windows® product suite.

Selling, General and Administration Costs

Selling, general and administrative costs in Calendar 2003 were \$7.0 million or 20.2% of revenue, compared to \$6.8 million or 23.2% of revenue for Calendar 2002. The decrease primarily was a result of the continued focus on cost control and continuous process improvement.

Net Income

For Calendar 2003 the Company reported net income of \$3.8 million compared to net income of \$0.2 million for Calendar 2002. The \$3.6 million improvement in net income was primarily due to a \$5.1 million increase in revenue, a \$1.2 million elimination of goodwill amortization, a \$0.4 million decrease in depreciation expense, and a \$0.2 million decrease in interest expense, which was offset by a \$1.2 million increase in project costs, and a \$2.5 million increase in operating expenses.

Liquidity and Capital Resources

As of December 31, 2003, the Company had a working capital position of \$14.2 million and net cash and cash equivalents of \$13.5 million, compared with \$6.3 million of working capital and \$6.8 million of cash and short-term investments at February 28, 2003. The \$6.7 million improvement in the Company's cash position was primarily due to an underwritten private placement "Bought Deal"

completed in June 2003, resulting in net proceeds of \$3.4 million and \$1.2 million in cash received from the exercise of options and warrants.

The Company believes that cash from operating activities together with cash on hand is sufficient to fund anticipated working capital, planned capital expenditures and required debt service payments over the next twelve months.

In fiscal 2004, the Company generated \$3.4 million of cash through its operations, which primarily consisted of net income of \$3.1 million, plus \$1.5 million in amortized capital asset costs, and reduced by a \$1.3 million increase in non-cash working capital. This compared to cash generated in fiscal 2003 operations of \$5.8 million, which primarily consisted of a net income of \$1.8 million, plus \$3.4 million in amortized capital assets, software development costs and a write-down of the book amounts of certain capital assets, and \$0.6 million decrease in non-cash working capital.

The Company generated \$4.1 million of cash resources in financing activities during fiscal 2004, which primarily consisted of net proceeds from a private placement of \$3.4 million and \$1.2 million in cash received from the exercise of options and warrants, which were offset by \$0.5 million repayment of long-term liabilities. This compared to cash resources utilized in financing activities in fiscal 2003 of \$1.3 million, which primarily consisted of \$9.0 million in repayments of long-term liabilities, offset by \$7.3 million in proceeds received from a new credit agreement with MCG Capital Corp. and \$0.4 million received from the exercise of options and warrants.

The Company utilized \$0.8 million of cash in investing activities during fiscal 2004, which consisted primarily of \$1.2 million in capital expenditures, offset by \$0.4 million in collections of its long-term receivable. This compared to cash used in investing activities of \$0.7 million during fiscal 2003, which consisted primarily of \$1.6 million in capital expenditures, offset by \$0.9 million in collections of its long-term receivables.

Contractual obligations of the Company are shown in Schedule 2.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements or derivative financial instruments that have or are reasonably likely to have a current or future effect on the results of operations.

MANAGEMENT'S DISCUSSION & ANALYSIS

SYSTEMS XCELLENCE INC.

(All amounts in U.S. dollars, unless otherwise specified)

Recent Accounting Developments

Beginning in Calendar 2004, the Company will adopt the new recommendations of the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments, which requires that a fair value-based method of accounting be applied to all employee or director stock option transactions, stock-based payments to non-employees, and employee awards that are direct awards of stock, awards that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments.

New accounting pronouncements applicable to the Company for fiscal 2003 and 2004 are included in note 1 to the consolidated financial statements.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reported period. Significant judgement and estimates are used in determining the revenue recognition under the percentage-of-completion method, the amortization of capital assets, the valuation of goodwill, the value of stock based compensation and the valuation of future tax assets. Management believes that the estimates used in determining revenue recognition to be most material. Actual costs could differ materially from those estimates and assumptions.

Risk Factors

This report contains forward-looking statements. Any statements contained herein that are not historical facts may be deemed to be forward-looking statements. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include, but may not be limited to the ability of the Company to adequately address: its dependence on key customers and key personnel; potential fluctuations in quarterly financial results; competition from both existing and new sources; the impact of technological change on its product/service offerings; the Company's limited history of profitability; the continued viability of its proprietary technology; the needs of its customers through new product and/or service offerings; the sufficiency of its liquidity and capital assets; its ability to finance future acquisitions; its reliance on key

suppliers; its product liability and insurance needs and the impact of government regulation on the business. A more comprehensive description of the Company's risk factors is provided in its Annual Information Form. All rights reserved.

MANAGEMENT'S DISCUSSION & ANALYSIS

SYSTEMS XCELLENCE INC.

(All amounts in U.S. dollars, unless otherwise specified)

SCHEDULE 1

Supplemental Financial Information - Calendar Year Basis (Unaudited)

Consolidated Statement of Operations Supplemental Financial Information (Unaudited)				
(US \$ 000s)	For the three-month period ended December 31,		For the twelve-month period ended December 31,	
	2003	2002	2003	2002
Revenues	\$ 9,292	\$ 7,855	\$ 34,611	\$ 29,478
Gross Profit	5,712	4,110	20,196	16,224
	61.5%	52.3%	58.3%	55.0%
Expenses				
Product development costs	2,124	886	6,062	3,699
Selling, general & administration	1,836	1,473	6,980	6,835
Total expenses	3,960	2,359	13,042	10,534
Interest expense (income), net	205	204	805	1,054
Other charges	555	960	2,491	3,242
Net income before goodwill amortization	992	587	3,858	1,394
Goodwill amortization	-	-	-	1,184
Net income	\$ 992	\$ 587	\$ 3,858	\$ 210

SCHEDULE 2

Contractual Obligations

Interest not included	Total	Less than 1 Year	Years 2-3	Years 4-5	After Year 5
Long - Term Debt	\$ 7,338,096	\$ 253,334	\$ 3,040,000	\$3,040,000	\$ 1,004,762
Mortgage	\$ 817,789	\$ 79,951	\$ 274,582	\$ 216,162	\$ 247,094
Operating Leases	\$ 4,866,619	\$ 829,110	\$ 1,526,674	\$ 944,794	\$ 1,566,041
Capital Lease Obligations	\$ 6,036	\$ 6,036	\$ -	\$ -	\$ -
Total Contractual Obligations	\$13,028,540	\$ 1,168,431	\$4,841,256	\$4,200,956	\$ 2,817,897

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING SYSTEMS XCELLENCE INC.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are outside directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Annual Report, the consolidated financial statements and the external Auditors' Report. The Committee reports its findings to the Board for consideration when approving the consolidated statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee. The accompanying financial statements and all of the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management had determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the consolidated financial statements.

Systems Xcellence Inc. maintains systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

Gordon S. Glenn
President
and Chief Executive Officer
February 13, 2004



Irwin P. Studen
Senior Vice-President, Finance and
Chief Financial Officer



AUDITORS' REPORT TO THE SHAREHOLDERS

SYSTEMS XCELLENCE INC.

We have audited the consolidated balance sheets of Systems Xcellence, Inc. as at December 31, 2003 and February 28, 2003 and the consolidated statements of operations, deficit and cash flows for the ten months ended December 31, 2003 and twelve months ended February 28, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and February 28, 2003 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a single horizontal line that starts under the "K" and ends under the "P".

Chartered Accountants
Toronto, Canada
February 13, 2004

CONSOLIDATED BALANCE SHEETS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) December 31, 2003 and February 28, 2003

	December 31, 2003	February 28, 2003
Assets		
Current assets:		
Cash and cash equivalents (note 8)	\$ 13,495,416	\$ 6,831,132
Accounts receivable	6,343,110	5,773,332
Prepaid expenses	661,788	480,021
Current portion of long-term receivable (note 2)	-	360,000
	<u>20,500,314</u>	<u>13,444,485</u>
Capital assets (note 3)	4,109,335	4,440,743
Deferred charges	275,683	308,199
Goodwill	7,103,227	7,103,227
	<u>\$ 31,988,559</u>	<u>\$ 25,296,654</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,174,041	\$ 2,713,252
Deferred revenue	1,808,931	3,823,759
Current portion of long-term liabilities (note 4)	339,321	642,593
	<u>6,322,293</u>	<u>7,179,604</u>
Long-term liabilities (note 4)	7,822,600	7,999,413
Shareholders' equity:		
Capital stock (note 5(a))	33,859,816	28,945,992
Warrants (note 5(b))	-	314,284
Deficit	(16,016,150)	(19,142,639)
	<u>17,843,666</u>	<u>10,117,637</u>
Commitments and contingencies (note 9)		
	<u>\$ 31,988,559</u>	<u>\$ 25,296,654</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Michael J. Callaghan, Director



Kevin R. Brown, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Revenue	\$ 28,688,552	\$ 30,617,226
Project costs	11,677,750	14,168,645
Gross profit	17,010,802	16,448,581
Expenses:		
Product development costs	5,542,516	3,548,737
Selling, general and administration	5,945,032	6,589,548
	11,487,548	10,138,285
Net interest:		
Income	(90,216)	(47,242)
Expense	805,041	1,010,391
	714,825	963,149
Income before the undernoted	4,808,429	5,347,147
Other charges:		
Amortization	1,555,176	3,208,210
Write-down of capital assets		280,139
	1,555,176	3,488,349
Income before income taxes	3,253,253	1,858,798
Income taxes (note 6)	126,764	100,025
Net income	\$ 3,126,489	\$ 1,758,773
Basic and diluted income per share (note 7)	\$ 0.07	\$ 0.04

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Deficit, beginning of period:		
As previously reported	\$ (19,142,639)	\$ (20,983,631)
Adjustment to reflect change in accounting policy (note 1(j))	-	82,219
As restated	(19,142,639)	(20,901,412)
Net income	3,126,489	1,758,773
Deficit, end of period	\$ (16,016,150)	\$ (19,142,639)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASHFLOWS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Cash provided by (used in):		
Operations:		
Net income	\$ 3,126,489	\$ 1,758,773
Items not involving cash:		
Amortization of capital assets	1,500,132	2,260,768
Amortization of deferred charges	55,044	216,059
Amortization of capitalized product development costs	-	731,383
Write-down of capital assets	-	280,139
Gain on disposal of capital assets	(5,645)	(20,091)
Change in non-cash operating working capital (note 8(b))	(1,305,584)	580,475
Cash provided by operations	3,370,436	5,807,506
Financing:		
Proceeds from private placements, net of issue costs	3,449,241	-
Proceeds from exercise of warrants	592,680	482,509
Proceeds from exercise of options	557,619	3,024
Proceeds from new warrants	-	314,284
Repurchase of warrants	-	(40,697)
Increase in deferred charges	(22,528)	(373,907)
Proceeds from long-term liabilities	-	7,285,716
Repayment of long-term liabilities	(480,085)	(8,989,259)
Cash provided by (used in) financing	4,096,927	(1,318,330)
Investments:		
Reduction in long-term receivable	360,000	885,000
Purchase of capital assets	(1,168,724)	(1,599,187)
Proceeds from disposal of capital assets	5,645	20,091
Cash used in investments	(803,079)	(694,096)
Increase in cash and cash equivalents	6,664,284	3,795,080
Cash and cash equivalents, beginning of period	6,831,132	3,036,052
Cash and cash equivalents, end of period	\$ 13,495,416	\$ 6,831,132

Supplemental cash flow information (note 8)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

Systems Xcellence Inc. (the "Company") designs, develops and installs electronic transaction processing software solutions and provides Application Service Provider ("ASP") services for the pharmaceutical benefits supply chain within the healthcare industry.

On October 14, 2003, the Board of Directors of the Company approved a change of the Company's year end from February 29, 2004 to December 31, 2003.

1. Significant accounting policies:

The accounting policies of the Company conform to those generally accepted in Canada. Significant accounting policies are summarized below:

(a) Consolidated financial statements:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents:

The Company considers deposits in banks, bank term deposits and short-term investments with original maturities of 90 days or less as cash and cash equivalents.

(c) Revenue recognition:

The Company's revenue is comprised of software licenses, consulting services (which may include development and integration services), maintenance, ASP, and switching services.

The Company recognizes revenue in accordance with Section 3400 of The Canadian Institute of Chartered Accountants' ("CICA") Handbook and has applied relevant U.S. accounting standards, including The American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition", SOP 98-9 "Modification of SOP 97-2, Software Recognition, with Respect to Certain Transactions" SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" and the SEC staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Revenue from software licenses is recognized when the Company has an executed license agreement with the customer, the software has been delivered, the amount of the fees is fixed and determinable and the collection of these fees is probable.

Software license arrangements, which involve significant customization services, are evaluated to determine whether these services are essential to the functionality of the software license. When such services are considered essential, the license and services revenues of such arrangements are recognized as the services are performed on the following bases:

(i) Fixed price contracts:

On a percentage-of-completion method of accounting, which recognizes revenue proportionately with the degree of completion of the services under the contract. The degree of completion is determined by reference to total time incurred relative to total estimated time to complete.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

1. Significant accounting policies (continued):

(ii) Time and materials contracts:

Upon delivery of the services.

Integration and consulting services are performed either on a fixed price contract basis or a time and materials contract basis and revenues are recognized on the same basis as noted above.

The Company recognizes maintenance fees as revenue on a straight-line basis over the term of the agreement.

Revenue for ASP and switching services is recognized as services are provided.

Revenue recognized in excess of amounts billed is reported as contracts in progress. Billings in excess of revenue recognized are recorded as deferred revenue.

(d) Deferred charges:

Deferred charges consist of debt issue and lease commission expenses which are amortized over the six-year term of the debt and over the term of the lease, respectively.

(e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Capital assets, including assets under capital leases are amortized on the following bases and annual rates:

Asset	Basis	Rate
Buildings	Straight line	5%
Furniture and equipment	Declining balance	20%
Software	Straight line	Over three years
Computer equipment	Straight line	Over three years
Leasehold improvements	Straight line	Over lease term

The Company reviews capital assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of capital assets is assessed by comparison of the carrying amount to the projected future net cash flows the capital assets are expected to generate.

(f) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

1. Significant accounting policies (continued):

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations. The Company completed its goodwill impairment test at February 28, 2003 and December 31, 2003 and determined no impairment existed.

(g) Research and product development:

Research costs are charged to income in the year in which they are incurred.

Product development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. All software development costs which meet the criteria are capitalized and subsequently reported at the lower of amortized cost and net realizable value. The capitalization of costs that meet the criteria ceases and amortization begins once the product is available for general release. Amortization of costs is on a straight-line basis over the expected life of the product, not exceeding three years.

Scientific research investment tax credits are offset from the related costs, provided there is reasonable assurance the benefits will be realized.

(h) Stock-based compensation plan:

Effective March 1, 2002, the Company adopted the new recommendations of the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"), which requires that a fair value-based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, awards that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Section 3870 permits the Company to continue its existing policy of treating all other employee and director stock options as capital transactions (the settlement method), but requires pro forma disclosure of net income and per share information as if the Company has accounted for these stock options under the fair value method (note 5(e)). No restatement of prior periods is required as a result of the adoption of the new recommendations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMSXCELLENCEINC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

1. Significant accounting policies (continued):

(i) Foreign currency translation:

(i) Change in functional currency:

As of December 1, 2002, the U.S. dollar became the functional currency of the Company. The change resulted from the increased significance of U.S. dollar-denominated transactions, assets and liabilities in relation to the Company's Canadian dollar-denominated transactions, assets and liabilities. In addition, the Company financings in the latter part of the year were denominated in U.S. dollars.

Effective December 1, 2002, the Company translates transactions denominated in foreign currencies other than the U.S. dollar at the exchange rates in effect on the transaction dates. Monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the historical exchange rates. Transactions included in operations are translated at the average exchange rates for the year. Exchange gains and losses resulting from the translation of these transactions are reflected in the consolidated statement of operations in the period in which they occurred.

Prior to December 1, 2002, the functional currency of the Company was the Canadian dollar. Accordingly, monetary assets and liabilities of the Company denominated in foreign currencies were translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities were translated at the historical exchange rates. Transactions included in operations were translated at the average exchange rates for the year. Exchange gains and losses resulting from the translation of these transactions were reflected in the consolidated statement of operations in the year in which they occurred.

(ii) Reporting currency:

Effective December 1, 2003, the Company changed its reporting currency from the Canadian dollar to the U.S. dollar. As a result, foreign denominated assets and liabilities as at December 31, 2003 and transactions for the ten-month period ended December 31, 2003 are translated as noted above.

For the twelve-month period ended February 28, 2003, the Company's reporting currency was the Canadian dollar. Due to the change in reporting currency to the U.S. dollar, the financial statements for the year ended February 28, 2003 have been translated to U.S. dollars using the current rate method. The assets and liabilities as at February 28, 2003 were translated to U.S. dollars at the exchange rate prevailing at the balance sheet date, and the results of operations at the average rate for the year.

(j) Change in accounting policy:

Effective March 1, 2002, the Company adopted the recommendations of the revised CICA Handbook Section 1650, "Foreign Currency Translation" ("Section 1650"), which eliminates the deferral and amortization of foreign currency translation gains and losses on long-term monetary items with a fixed or ascertainable life. Exchange gains and losses on long-term monetary items are now included in income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

1. Significant accounting policies (continued):

At February 28, 2002, the Company had an unamortized foreign exchange gain of approximately \$82,219 included in accounts payable and accrued liabilities. Upon adoption, accounts payable and accrued liabilities has been reduced by this amount, with a corresponding decrease in opening deficit as at March 1, 2002.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(l) Income per share:

Basic income per share is computed by dividing net income by the weighted average shares outstanding during the year. Diluted income per share is computed similar to basic income per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that the proceeds from the exercise of in-the-money stock options and warrants were used to acquire shares of common stock at the average market price during the year.

(m) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment.

2. Long-term receivable:

The long-term receivable, which arose from the sale of product and services to a customer in Argentina was due in monthly installments of \$50,000. The receivable was insured by the Export Development Corporation ("EDC") to a maximum amount of 80% of any outstanding balance. Given the uncertain economic conditions in Argentina, the Company recorded a provision for the uninsured portion in the year ended February 29, 2003. As at December 31, 2003, the remaining balance of the long-term receivable had been collected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

3. Capital assets:

December 31, 2003	Cost	Accumulated amortization	Net book value
Land	\$ 375,635	\$ -	\$ 375,635
Buildings	2,576,638	1,051,882	1,524,756
Furniture and equipment	1,095,881	736,074	359,807
Software	2,176,034	1,713,665	462,369
Computer equipment	4,171,974	2,949,487	1,222,487
Computer equipment under capital lease	3,563,717	3,543,702	20,015
Leasehold improvements	347,389	203,123	144,266
	\$ 14,307,268	\$ 10,197,933	\$ 4,109,335

February 28, 2003	Cost	Accumulated amortization	Net book value
Land	\$ 375,635	\$ -	\$ 375,635
Buildings	2,564,719	921,569	1,643,150
Furniture and equipment	1,032,450	629,613	402,837
Software	1,993,064	1,448,706	544,358
Computer equipment	3,526,587	2,467,284	1,059,303
Computer equipment under capital lease	3,581,509	3,345,800	235,709
Leasehold improvements	288,185	108,434	179,751
	\$ 13,362,149	\$ 8,921,406	\$ 4,440,743

4. Long-term liabilities:

December 31, 2003	Current	Long-term	Total
Capital leases	\$ 6,036	\$ -	\$ 6,036
Long-term debt (a)	253,334	7,084,762	7,338,096
Mortgage (b)	79,951	737,838	817,789
	\$ 339,321	\$ 7,822,600	\$ 8,161,921

February 28, 2003	Current	Long-term	Total
Capital leases	\$ 578,202	\$ 1,703	\$ 579,905
Long-term debt (a)	-	7,294,446	7,294,446
Mortgage (b)	64,391	703,264	767,655
	\$ 642,593	\$ 7,999,413	\$ 8,642,006

(a) Long-term debt:

On December 27, 2002, the Company entered into a Credit Facility Agreement (the "Agreement") with MCG Capital Corporation ("MCG"). The credit facility consists of a U.S. \$1,000,000 revolving line of credit and a U.S. \$7,600,000 term loan. The credit facility matures on December 27, 2008. At December 31, 2003, the Company had not drawn on the line of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

4. Long-term liabilities (continued):

The term loan bears interest at a base rate (LIBOR or U.S. Prime rate) plus a rate margin to be determined as of the first date of each interest period, contingent on the Company's leverage ratio at that time. The base rate is capped for the first three years of the Agreement. For the first two years, the Company will make quarterly interest only payments, and thereafter, quarterly interest and amortized principal payments of \$380,000 until maturity. The effective interest rate for the ten months ended December 31, 2003 was 10.5%.

The credit facility is a senior secured arrangement, secured by the Company's U.S. subsidiary and guaranteed by the Company.

(b) Mortgage:

The mortgage is secured by land and building, is amortized over 10 years and matures on March 31, 2006. The mortgage bears interest at 6.8% and requires monthly payments of approximately \$11,011 including principal and interest.

Principal repayments required for long-term liabilities are as follows:

2004	\$	339,321
2005		1,606,493
2006		1,603,586
2007		1,609,365
2008		1,615,546
Thereafter		1,387,610
	\$	8,161,921

The following have been included in interest expense:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Long-term liabilities	\$ 745,867	\$ 981,281
Other indebtedness	59,174	29,110
	\$ 805,041	\$ 1,010,391

5. Capital stock:

(a) Common shares:

(i) Authorized:

Unlimited voting common shares

(ii) Issued:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

5. Capital stock (continued):

	Number of shares	Amount
Balance, February 28, 2002	38,881,122	\$ 27,929,522
Exercise of compensation warrants	1,050,333	482,509
Shares issued in lieu of bonus	591,116	198,575
Exercise of options	7,500	3,024
Repurchase of warrants (b)(i)	-	332,362
Balance, February 28, 2003	40,530,071	28,945,992
Exercise of warrants (b)(ii)	1,250,000	906,964
Private placement	3,846,154	3,449,241
Exercise of options	807,829	557,619
Balance, December 31, 2003	46,434,054	\$ 33,859,816

(b) Warrants:

- (i) Pursuant to a warrant agreement entered into with GATX on December 29, 2000, the Company issued 925,926 warrants to subscribe for and purchase 925,926 common shares at a price of Cdn. \$1.1232 per share. The warrants, which were exercisable in whole or in part, expire on December 29, 2005 and were considered to have a value of approximately \$367,000 at the date of issue. During the year ended February 28, 2003, the outstanding warrants were repurchased for approximately \$40,400. The difference of \$326,600 has been recorded as capital stock.
- (ii) Pursuant to a warrant agreement entered into with MCG Capital Corporation, the Company issued 1,250,000 warrants to subscribe for and purchase 1,250,000 common shares of the Company at an exercise price of Cdn. \$0.64 per warrant. The warrants were recorded at their estimated fair value of \$314,284. On November 30, 2003, the 1,250,000 warrants were exercised for net proceeds to the Company of approximately \$592,680. The proceeds, together with the initial fair value, have been reflected as the value of the shares issued.

(c) Shareholders' Rights Plan:

The Company has adopted a Shareholders' Rights Plan (the "Rights Plan") to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum value for their investment and are given adequate time to properly assess the take-over bid on a fully informed basis. The Rights Plan grants shareholders the right to acquire, under certain circumstances, additional common shares at a discount from their then current market price. The Company, at its option, may redeem each right at a nominal price or waive application of the Rights Plan.

(d) Share purchase options:

The Company has a fixed stock option plan. Under the terms of the plan, the Company may grant options from time to time to its officers, directors, key employees and service providers and any affiliate or subsidiary of the Company for up to 7,750,000 shares of common stock. The exercise price of each option shall be set at the time the option is granted and shall not be lower than the market price of the Company's common shares at the time. An option's maximum life under the Company's option plan is five years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMSXCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

5. Capital stock (continued):

	December 31, 2003		February 28, 2003	
	Number of options	Weighted average exercise price (in Canadian dollars)	Number of options	Weighted average exercise price (in Canadian dollars)
Outstanding, beginning of period	4,817,445	\$ 0.79	3,796,169	\$ 1.12
Granted	1,352,500	0.80	1,552,500	0.43
Exercised	(807,829)	0.93	(7,500)	0.62
Expired	(63,111)	1.63	(76,724)	1.21
Cancelled	(18,000)	0.82	(447,000)	1.08
Outstanding, end of period	5,281,005	0.86	4,817,445	0.90
Options exercisable, end of period	2,480,499	1.11	3,271,106	1.09

The following table summarizes the information about the stock options outstanding at December 31, 2003:

Range of exercise prices (in Canadian dollars)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (in Canadian dollars)	Number exercisable	Weighted average exercise price (in Canadian dollars)
\$0.30 - \$0.80	4,314,004	3.56	\$ 0.61	1,543,498	\$ 0.59
\$0.81 - \$1.85	676,667	2.17	1.62	671,667	1.63
\$1.86 - \$3.05	290,334	2.10	2.80	265,334	2.83
\$0.30 - \$3.05	5,281,005	3.30	0.86	2,480,499	1.11

(e) Pro forma stock-option disclosure:

For companies electing not to adopt the fair value measurement for stock-based compensation, the Section 3870 accounting pronouncement requires the disclosure of pro forma net income and net income per share information. A summary of the required pro forma disclosure of the impact on the consolidated statements of operations is presented in the table below:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Net income, as reported	\$ 3,126,489	\$ 1,758,774
Compensation expense related to the fair value of stock options	(216,300)	(78,765)
Pro forma net income	\$ 2,910,189	\$ 1,680,009
Pro forma income per share:		
Basic	\$ 0.07	\$ 0.04
Diluted	0.06	0.04

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

5. Capital stock (continued):

The fair value of each option has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used: dividend yield of 0%, expected volatility ranging between 53% and 76%, risk-free rate of return of 2.75% and an expected life of the option of five years. The pro forma effect of options granted prior to March 1, 2002 has not been included.

The Company has assumed no forfeiture rate, as adjustments for actual forfeitures are made in the period they occur. The weighted average fair value on the date of grant of options issued was Cdn. \$0.62 and Cdn. \$0.29 in the ten months ended December 31, 2003 and twelve months ended February 28, 2003.

6. Income taxes:

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Future income tax assets:		
Non-capital loss carryforwards	\$ 3,738,000	\$ 2,977,000
Deductible research and development expenses	1,473,000	1,362,000
Future deductible lease payments	-	27,000
Goodwill	1,332,000	1,618,000
Capital assets	2,566,000	3,099,000
Other	832,000	1,241,000
	9,941,000	10,324,000
Less valuation allowance	9,934,000	10,316,000
Total future tax assets	7,000	8,000
Future income tax liabilities:		
Capital assets	-	-
Deferred charges	7,000	8,000
Capitalized product development	-	-
Total future tax liabilities	7,000	8,000
Net future income tax assets	\$ -	\$ -

At December 31, 2003, the Company has loss carryforwards available to reduce future years' taxable income, the tax effect of which has not been recorded in the accounts, which expire as follows:

	Canada	U.S.A.	Total
2007	\$ 913,000	\$ -	\$ 913,000
2008	475,000	-	475,000
2010	4,919,000	-	4,919,000
2011	985,000	-	985,000
2012 - 2022	-	2,760,000	2,760,000
	\$ 7,292,000	\$ 2,760,000	\$ 10,052,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

6. Income taxes (continued):

The differences between the effective tax rate reflected in the provision for income taxes and the statutory income tax rate are as follows:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Corporate statutory rate	36.6 %	38.3 %
Tax effect of:		
U.S.A. income taxes	2.8 %	1.9 %
Other	(23.8)%	34.6 %
Valuation allowance	(11.7)%	(67.6)%
	3.9 %	7.2 %

7. Income per share:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Numerator:		
Net income	\$ 3,126,489	\$ 1,758,773
Denominator:		
Weighted average number of shares:		
Basic	43,486,727	39,116,745
Diluted	46,352,202	39,646,890
Basic and diluted income per share	\$ 0.07	\$ 0.04

8. Supplemental cash flow information:

(a) The components of cash and cash equivalents are as follows:

	December 31, 2003	February 28, 2003
Cash on deposit	\$ 1,659,634	\$ 298,922
Bank term deposits:		
U.S. dollar deposits	11,808,740	5,700,000
Canadian dollar deposit (Cdn. \$35,000; February 28, 2003 - Cdn. \$1,235,000)	27,042	832,210
	\$ 13,495,416	\$ 6,831,132

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

8. Supplemental cash flow information (continued):

(b) Change in non-cash operating working capital:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Accounts receivable	\$ (569,778)	\$ (1,342,814)
Prepaid expenses	(181,767)	32,541
Accounts payable and accrued liabilities	1,460,789	333,400
Deferred revenue	(2,014,828)	1,557,348
	<u>\$ (1,305,584)</u>	<u>\$ 580,475</u>

(c) Cash paid and received for income taxes and interest is as follows:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Income taxes paid	\$ 144,545	\$ 93,791
Interest paid	805,041	798,535
Interest received	(90,216)	(47,242)

(d) Supplemental disclosure of non-cash investing activities:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Payment of accrued bonus through share issuance	\$ -	\$ 198,575

9. Commitments and contingencies:

Aggregate minimum payments in respect of operating lease commitments for premises and office equipment as at December 31, 2003 are as follows:

2004	\$ 829,110
2005	783,626
2006	743,048
2007	467,709
2008	477,085
Thereafter	1,566,041
	<u>\$ 4,866,619</u>

In the normal course of business, the Company has been the subject of legal claims. Management believes that adequate provision has been made for these claims.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMS XCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

10. Segmented information:

The Company operates in a single reportable operating segment, which is providing software and transaction processing solutions to the pharmaceutical benefits industry.

The Company operates in two geographic areas as follows:

December 31, 2003	Canada	U.S.A.	Total
Total sales to customers	\$ 957,376	\$ 27,731,176	\$ 28,688,552
Capital assets	2,083,628	2,025,707	4,109,335
Goodwill	-	7,103,227	7,103,227

February 28, 2003	Canada	U.S.A.	Total
Total sales to customers	\$ 849,482	\$ 29,767,744	\$ 30,617,226
Capital assets	2,382,314	2,058,429	4,440,743
Goodwill	-	7,103,227	7,103,227

The Company's revenue includes export sales of \$120,130 during the ten months ended December 31, 2003 (February 28, 2003 - \$146,016) to customers outside North America.

The Company's revenue breaks down into the following components:

	(10 Months Ended) December 31, 2003	(12 Months Ended) February 28, 2003
Products and services:		
Integration and consulting services	\$ 5,679,880	\$ 11,903,426
Maintenance	6,645,570	8,299,329
ASP/switching	7,887,773	6,582,714
Software licenses	8,475,329	3,831,757
	\$ 28,688,552	\$ 30,617,226

The Company's two largest customers accounted for 30.0% and 6.0% of the Company's total sales for the ten months ended December 31, 2003 (February 28, 2003 - 28.5% and 9.1%).

At December 31, 2003, the two largest customers accounted for 16.2% and 8.3% of the accounts receivable balance (February 28, 2003 - 12.8% and 11.1%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SYSTEMSXCELLENCE INC.

(EXPRESSED IN U.S. DOLLARS) Ten months ended December 31, 2003 and twelve months ended February 28, 2003

11. Financial instruments:

(a) Credit risk:

The Company is subject to concentrations of credit risk through cash and cash equivalents, accounts receivable and long-term amounts receivable due to the limited number of counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis. Cash and cash equivalents and accounts receivable are with financial institutions and large corporations.

(b) Fair values:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity. The carrying values of the long-term receivable and long-term liabilities approximate their fair values as the interest rates approximate rates currently available to the Company.

(c) Foreign exchange risk:

The Company is subject to foreign exchange risk. The Company does not enter into derivative instruments to mitigate this risk. Exposure to fluctuations in Canadian-dollar denominated transactions is partially offset by Canadian dollar-denominated assets and liabilities.

LIVE WITH INTEGRITY AND LEAD BY EXAMPLE



John Milardovic - Senior Web Developer

John has been a solid contributor to the success of SXC. Hired as a junior SQR Developer, John immediately showed that he was capable of accepting challenges that were far beyond his original scope, such as creating a reporting infrastructure which was used by all SQR developers. Over the last couple of years John has focused on Java, Web and Perl Development. John was selected as a Corporate Star because he has been instrumental to our success of bringing new technologies into the organization and continues to set new project standards, showing all the qualities of a Corporate Star.



Julie Knoop - Plan Design Specialist

Julie has been with SXC for nearly three years, and has always been willing to step up to the plate and get the job done right. As a Plan Design Specialist, Julie has recently taken on several very large and challenging projects relating to client implementation and plan design, where attention to accuracy and details are critical. Julie has been praised because of her great dedication, intelligence, enthusiasm and quality to each project she approaches. Julie was selected upon her recent results outside the scope of her day-to-day activities, showing all the qualities of a Corporate Star.



Janet Reuter - Senior Applications Developer

Janet has been with SXC for over six years and exemplifies the type of developer that is key to SXC's success. As a Senior Applications Developer, Janet has always been willing to provide her expertise in resolving critical issues and educating SXC personnel in the various systems within RxCLAIM®. Janet has recently moved to a different development area within RxCLAIM® and has proven that she can adapt and thrive learning different RxCLAIM® systems. Janet is analytical, extremely detail-oriented and driven to create quality software on-time and within project deadlines, showing all the qualities of a Corporate Star.

THE "CORPORATE STARS" PROGRAM WAS DEVELOPED TO RECOGNIZE AND REWARD THOSE INDIVIDUALS ACROSS THE COMPANY WHOSE PERSONAL CONTRIBUTIONS RESULTED IN EXTRAORDINARY ACHIEVEMENTS AT SXC.

Throughout the year, employees were encouraged to nominate any co-workers whom they felt were outstanding in terms of customer relations, marketing/business development, administration or management. Winners were announced during the year. SXC is proud to recognize the above individuals.

Board Of Directors

Michael J. Callaghan (c)
Chairman
Managing Director, Private Equity
MDS Capital Corp.

.....
Kevin R. Brown (c)
President and Chief Executive
Officer
Amisys Synertech Inc.

.....
Terrence C. Burke (c)
Independent Consultant

.....
Gordon S. Glenn
President & Chief Executive Officer
Systems Xcellence Inc.

.....
Jeffrey F. Olin (a)
Managing Partner
Desjardins Securities Inc.

.....
Jeffrey Park (a)
Investment Manager
Covington Capital Corp.

.....
James A. Ryan (a)
Chief Financial Officer
Cryptologic

.....
a= Audit Committee
c= Compensation Committee

Corporate Officers

Gordon S. Glenn
President & Chief Executive Officer

.....
Mike Bennof
Senior Vice President
Consulting & Strategic Accounts

.....
Jeff Jensen
Senior Vice President
Business Development &
Chief Operating Officer

.....
John Romza
Senior Vice President
Research & Development,
Chief Technology Officer

.....
Irwin P. Studen
Senior Vice President Finance,
Chief Financial Officer &
Corporate Secretary

.....

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